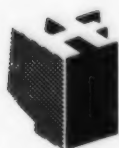


Highlights

ALBERTA HERITAGE SAVINGS TRUST FUND
ANNUAL REPORT

2000



Heritage Fund

Alberta
TREASURY

WHAT IS THE ALBERTA HERITAGE SAVINGS TRUST FUND?

The Alberta Heritage Savings Trust Fund was created in 1976 when the money government received from oil and gas markets was high and our economy was booming. The government of the day thought that some of this extra money should be set aside for future generations of Albertans, so they created this Fund.

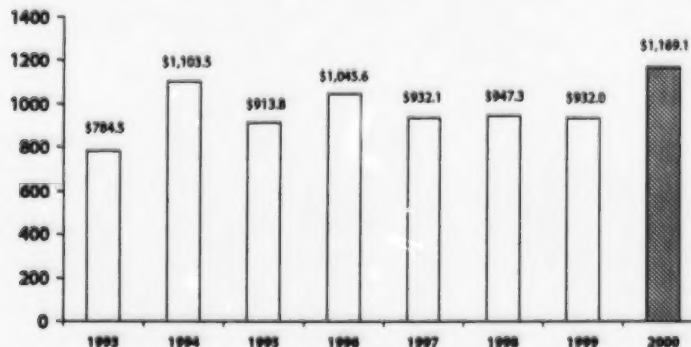
In 1987, the Fund reached \$12.7 billion. But it soon began to drop because of spending on a number of projects needed to diversify Alberta's economy and meet the needs of a growing population.

In 1995, the government asked Albertans to give their views on the future of the Heritage Fund. The majority of the people who responded said we should keep the Fund, but with a few changes. We listened. Now the Fund can no longer be used to invest in specific projects.

The new focus is on providing greater financial returns over the long-term, while providing Alberta with a steady stream of income from professionally-managed investments to help pay for Alberta's current needs.

TOTAL HERITAGE FUND INCOME

at March 31 (\$ millions)



Highlights of the Alberta Heritage Savings Trust Fund in 1999-2000

The Alberta Heritage Savings Trust Fund had a strong year in 1999-2000, due to high equity market performance and associated capital gains:

- The book value of the Fund reached \$12.3 billion.
- The Fund earned nearly \$1.2 billion in net assets.
- \$230 million was retained in the Fund to protect its value.

COMMONLY ASKED QUESTIONS

Albertans have come to us with a lot of questions about the Heritage Fund. In the section below, we've answered a few of the most common questions people have asked about the Fund.

Q: How much money is in the Heritage Fund? I thought we spent it all a long time ago.

A: Some of the Fund was spent on capital projects in the 1980s. However, Albertans asked us to change that policy in 1995 and we did. We're focusing now on getting a better return on our investments over the long-term so we can build a legacy for the future, while still providing Alberta with income to help pay for current programs.

The Alberta Heritage Savings Trust Fund had a strong year in 1999-2000. According to the 1999-2000 annual report, the book value of the financial assets in the fund is \$12.3 billion.

The markets were exceptionally good this past year, and we earned \$1.2 billion from our investments. And because Alberta's economy was so strong, we were able to keep \$230 million of that income in the Fund to protect its value. These numbers change year to year, as the highs and lows in the markets may affect our returns.

Q: Who is keeping track of this Fund and how well it does?

A: The Heritage Fund is carefully and professionally managed by a combination of managers from within government and from external agencies. These experts, drawn from among the best in their field, manage the fund with the goal of getting the best return on our investment.

The Standing Committee on the Alberta Heritage Savings Trust Fund, made up of Members of the Legislative Assembly, reviews and approves the business plan and annual report of the Fund. The Provincial Treasurer has responsibility for Fund investments.

Q: Didn't we lend a bunch of the money from this Fund to other provinces? What happened to those loans?

A: Between 1977 and 1982, six provinces or their agencies borrowed money from the Heritage Fund – Manitoba, Quebec, Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island. In March 1982, this type of lending was suspended.

The last of these loans will be paid back this year. There have been no defaults and all interest has been paid.

Q: Well, that's all fine, but how does having the Heritage Fund benefit me?

A: The Alberta Heritage Savings Trust Fund is building a strong foundation for future generations of Albertans. We're reaping the rewards of our strong economy today, and we want to make sure we are able to share some of that wealth with our children and our grandchildren.

But we also see direct benefits from this Fund today. Some of the money we generate from our investments goes to Alberta's General Revenue Fund each year. That totaled \$939.1 million in 1999-2000. From there, money can be drawn to help fund health care, education, roads, and all sorts of other programs. Those are benefits we can see around us every single day.



Heritage Fund

**ALBERTA HERITAGE SAVINGS TRUST FUND
ANNUAL REPORT**

2000

Alberta
TREASURY

Fund Profile

The Fund, established in 1976, operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. A new *Act* was passed and came into force on January 1, 1997 that sets out a revised investment framework for the Heritage Fund. The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan and annual report of the Fund. The Standing Committee has representation from the major parties of the Legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the Province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objectives.

The Provincial Treasurer has responsibility for the Fund's investments. The Provincial Treasurer is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.

The business plan of the Heritage Fund is published as part of the budget and the income of the Fund is consolidated into the revenue of the Province.

An Investment Operations Committee was established to add private sector financial and business oversight of the Fund's investment policies and operation. The Investment Operations Committee is chaired by the Deputy Provincial Treasurer and consists primarily of private sector members. The Committee reviews and makes recommendations with respect to the business plan, annual report and investment policy statements for the Fund. The Committee meets at least quarterly to review performance and fund management.

The investment manager for the Fund is Alberta Treasury's Investment Management Division. The Investment Management Division is staffed by investment professionals. Of the 29 professionals, 11 have their Charter Financial Analyst designations and 8 are in the process of completing the program. The average years of investment experience for the staff is 11 years. In addition to the Heritage Fund's \$13 billion in assets, the Division also manages \$23 billion in other endowment funds, pension funds sponsored by the Province and special investment funds. The assets managed by the Division are invested largely through pools to maximize the advantage due to the size of the assets under management and ensure that investments are made on a cost-effective basis. External specialist managers (private sector investment managers) are used to manage specific investment mandates. For the year ending March 31, 2000, the total investment expense was \$6.4 million or .05% of the Fund's total market value. The average investment expense paid by other institutional investors is .25% of total market value or the equivalent of \$32.1 million. A savings of approximately \$25.7 million to the Province.

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Additional copies of this report and copies of the future quarterly reports on the Heritage Fund may be obtained by writing:

Heritage Fund, Room 304, Terrace Building,
Edmonton, Alberta, T5K 2C3

or by telephoning (780) 427-4414

or by visiting our website at: www.treas.gov.ab.ca

Provincial Treasurer's Report

The Alberta Heritage Savings Trust Fund enjoyed a strong year in 1999-2000. The fair value of the Fund increased by \$139.6 million to \$12,853.8 million. The Fund exceeded several benchmarks. Most importantly, on a total fund basis the Heritage Fund returned 9.0% on a market value basis, significantly higher than the book value cost of the Province's total debt (Canadian and U.S.) of 6.9%. The Fund generated \$1,169.1 million in net investment income, well ahead of the forecast \$794.6 million. Strong equity market performance and associated capital gains were responsible for the higher than expected investment income. The strength of the Province's fiscal situation also allowed for \$230 million to be retained in the Fund to protect its real value.

A plan was put into place in 1997 to re-structure the fund. The Fund was divided into two distinct portfolios; the Transition Portfolio to support the immediate fiscal needs of the Province and the Endowment Portfolio to maximize long term returns. With the decline in long term interest rates, it was realized that the only way to provide a sustainable level of income in real terms was to invest in assets that would provide higher long term returns. This would mean a portfolio with a significant commitment to equities.

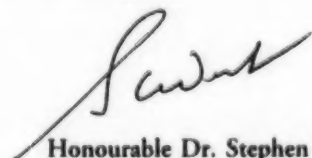
The transition has now nearly reached the halfway mark. As investments in the Transition Portfolio mature, they are rolled over into the Endowment Portfolio. Originally \$1.2 billion per year was transferred. In the fiscal year 2000-01 this will be increased to \$2.4 billion. As a result, the re-structuring may be completed ahead of the originally planned 2005 date.

The Heritage Fund is an important part of the Province's fiscal framework and represents an ongoing legacy for all Albertans. It is important that it is managed on a prudent basis. Key to that management is the measurement of performance against clearly defined benchmarks. In the case of the Transition Portfolio, the original benchmark has become less

relevant. The Transition Portfolio was initially benchmarked against the Canadian dollar portion of the Province's debt. It has become increasingly clear that, rather than look at one component of the Heritage Fund against one component of the Province's debt, the entire Fund's performance should be compared against the total cost of the Province's debt. A new benchmark has been adopted for the Transition Portfolio which is more reflective of the investment universe in which the Transition Portfolio is invested. The new benchmark will become effective on April 1, 2000. On a book value basis, in 1999-2000, the Transition Portfolio returned 6.7% versus 6.8% of the cost of the Canadian dollar portion of the Province's debt (excludes U.S. dollar portion).

The Endowment Portfolio, which will eventually form the structure for the investment of all of the Fund's assets, is measured in several ways. The Endowment Portfolio's return is compared to a policy benchmark calculated using returns on public market indices. In the 1999-2000 fiscal year, the Endowment Portfolio earned an 18.0% return, 160 basis points ahead of the policy benchmark return of 16.4%. The Heritage Fund is also reviewed relative to other institutional portfolios based on surveys of fund returns. For the year ending March 31, 2000 the median or middle ranked fund return based on an industry survey was 17.1%.

While returns were very strong in the 1999-2000 fiscal year, we must be cautious in extrapolating these returns into the future. We must also recognize that in focusing more on achieving a higher long run rate of return, we must accept increased risk and volatility in the Fund's investment income from year to year. The key to achieving long run sustainable performance is to maintain a prudent diversified portfolio, a long term focus and investment discipline.



Honourable Dr. Stephen C. West
Provincial Treasurer

The Year in Review

- The Fund earned net income of \$1,169.1 million in 1999-2000, an increase of \$237.1 million from \$932.0 million a year earlier. During the year, the Fund transferred \$939.1 million to the General Revenue Fund and retained \$230 million (see note 5 to the financial statements).
- The Alberta Heritage Savings Trust Fund returned 9.0% on a market value basis over a one-year period versus the book value cost of the Province's total debt of 6.9% or 2.2% on a market value basis.

RETURN ON COMBINED PORTFOLIO

Period Ending March 31, 2000

(Annualized Return at Market)

	1 yr	2 yr	3 yr
Combined Transition/Endowment Portfolio	9.0%	7.2%	7.9%
Province's total debt	2.2%	5.2%	6.3%

- The market value cost for the Province's total debt is down in 1999-2000 due to the strengthening of the Canadian dollar.
- On March 31, 2000, the total equity of the Fund was \$12,256.3 million on a cost basis and \$12,853.8 million on a fair value basis. On the cost basis, the equity of the Fund increased by \$230 million from 1999 and on a fair value basis,

the Fund equity increased by \$139.6 million from the March 31, 1999 amount of \$12,714.2 million.

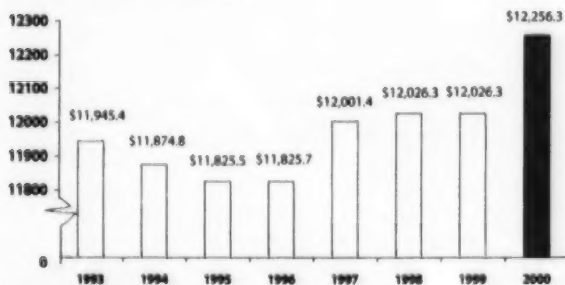
Fair value is determined in accordance with Note 2(d) to the financial statements and is as follows:

	2000	1999
	(millions)	
Investments		
Endowment Portfolio	\$ 5,974.8	\$ 4,334.3
Transition Portfolio		
Total deposits, debentures and fixed income securities	6,764.9	8,125.2
Canadian equities	35.3	79.9
Loans (at cost)	98.8	107.8
Accrued interest and accounts receivable	142.1	138.2
Due to the General Revenue Fund	(159.1)	(68.0)
Accounts Payable	(3.0)	(3.2)
Net assets at fair value	<u>\$ 12,853.8</u>	<u>\$ 12,714.2</u>
Net assets at cost	<u>\$ 12,256.3</u>	<u>\$ 12,026.3</u>

- Over the year, \$1,200.0 million (at cost) was transferred from the Transition Portfolio to the Endowment Portfolio.
- In addition to the annual report and quarterly updates, the Standing Committee once again undertook a series of public meetings to report on the Fund and answer Albertans' questions.

TOTAL HERITAGE FUND EQUITY*

at March 31 (\$ millions)



* Assets less liabilities, at cost.

TOTAL HERITAGE FUND INCOME

at March 31 (\$ millions)



Business Plan

The business plan for the Heritage Fund describes the mission and specific investment objectives of the Fund and how the Fund will be invested, managed and measured. The business plan is reviewed annually and is published as part of the budget. The Investment Operations Committee reviews and makes recommendations regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

The Fund has been structured into two portfolios: the Transition Portfolio and the Endowment Portfolio. Each portfolio has its own investment objective and policy which is closely tied to the goals of the Fund. The three goals of the Fund, as outlined in the plan, remain as follows:

GOAL 1 EARN INCOME TO SUPPORT THE GOVERNMENT'S CONSOLIDATED FISCAL PLAN.

The Transition Portfolio is to provide a relatively stable level of interest income to the government over the short to medium term horizon and to gradually transfer assets to the Endowment Portfolio. The Transition Portfolio is expected to earn a market rate of return greater than the market cost of the Province's Canadian dollar debt. The benchmark for the Transition Portfolio was changed effective April 1, 2000 and will be calculated based on 50% of the SC 91-day T-bill Index and 50% of the SC Short-term bond index.

HERITAGE FUND ASSETS (COST BASIS)

at March 31, 2000 (\$ millions)

Total: \$12,256 million



GOAL 2 MAKE INVESTMENTS IN THE ENDOWMENT PORTFOLIO TO MAXIMIZE LONG TERM FINANCIAL RETURNS.

The Endowment Portfolio focuses on the long term investment horizon. The Endowment Portfolio is being funded gradually over time with assets transferred from the Transition Portfolio. Eventually all Heritage Fund assets will be invested in the Endowment Portfolio. The investment policy for the Endowment Portfolio calls for a long term policy allocation of 60% in equities. Further, the policy allocation to foreign equities is 30% of the Endowment Portfolio.

ACCOUNTING FOR THE HERITAGE FUND

The Heritage Fund is accounted for on a cost basis. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. Investments in loans are recorded at cost less any unearned income and allowance for credit loss.

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. Capital gains or losses are recognized in income when the asset is sold.

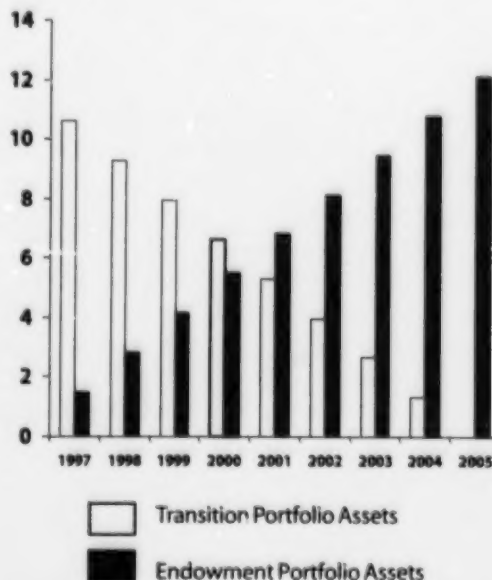
Fair or "market" values are provided in schedules to the financial statements for comparison purposes.

GOAL 3 TO IMPROVE ALBERTANS' UNDERSTANDING AND THE TRANSPARENCY OF THE ALBERTA HERITAGE SAVINGS TRUST FUND.

This goal includes the timely release of quarterly reports and detailed discussion of the Fund within the Annual Report. In addition, the Standing Committee provides for ongoing public consultation through public meetings held throughout the Province on an annual basis. Each Portfolio of the Fund is compared to clearly defined performance benchmarks.

On March 23, 1999, the *Fiscal Responsibility Act* received Royal Assent and, until the accumulated gross debt is eliminated, the Provincial Treasurer may retain in the Fund such amounts as the Provincial Treasurer considers advisable. During the the 1999-2000 fiscal year, \$230 million was retained in the Fund to protect its real value.

TRANSFER OF ASSETS OVER TRANSITION PERIOD⁽¹⁾⁽²⁾
(\$ billions)



¹ Based on an annual transfer of \$1.2 billion. \$1.2 billion to \$2.4 billion will be transferred in 2000-01 and subsequent years. It is possible all of the assets of the Transition Portfolio will be transferred by 2003.

² Cost value: excludes accrued interest and accounts receivable.

Endowment Portfolio

Introduction

The Endowment Portfolio was established on January 1, 1997 with a transfer from the "old" Heritage Fund of \$1.2 billion of investments (at cost). This included equity holdings previously held in the former Commercial Investment Division and a mix of short term and mid term fixed income securities. Since the initial \$1.2 billion funding, the Endowment Portfolio has received \$100 million a month from the Transition Portfolio. The Endowment Portfolio has increased in market value to \$5,974.8 million, reflecting both transfers from the Transition Portfolio and market appreciation. The Endowment Portfolio has undergone considerable change as the initial assets and subsequent cash flow have been invested to meet the policy objectives.

INVESTMENT OBJECTIVE

The investment objective of the Endowment Portfolio is to optimize long term financial returns subject to an acceptable level of risk. Alberta Treasury operates under the "Prudent Person Rule" by legislation. This assigns to the investment manager the responsibility to restrict investments to assets that would be approved by a prudent investor. By investing to optimize long term returns it is expected that over time, the Heritage Fund will generate higher financial returns than in the past when social and economic objectives were pursued or if only shorter term income objectives were pursued. Similar investment funds with long term investment horizons and an objective to optimize long run returns, invest a significant amount of their assets in equities since equities have historically provided investors with higher total returns (dividends and capital gains) than interest bearing investments. This higher performance is generally offset by lower and less predictable income flows. Based on historical experience, a similar asset mix policy would have generated a real rate of return of around 5.0%.

The return in each asset class is compared to a market benchmark. The performance of the Endowment Portfolio will be measured by comparing the actual return of the fund to the return generated by a benchmark portfolio asset mix. It's calculated by multiplying the returns achieved by market indices by the Portfolio asset mix policy (see page 7). A four-year measurement period is used to focus management attention on the longer term. It is expected that over a four-year period, active management would add 0.5% in return over and above what would have been generated by the benchmark portfolio asset mix.

INVESTMENT POLICY

The Endowment Portfolio's investment policy statement is reviewed and recommended annually by the Investment Operations Committee to the Provincial Treasurer. The investment policy statement for the Portfolio is then approved by the Provincial Treasurer and forms the reference document for Alberta Treasury as the investment manager. The investment policy statement must be consistent with

the business plan of the Fund and it provides the overall investment framework as well as specific policies and guidelines such as:

- a quality constraint for fixed income securities of investment grade (a minimum of a "BBB" credit rating or equivalent)
- investment limits by asset class
- a summary of the legislative authority and governance structure, including specific duties of the investment manager
- requirement to adhere to the "prudent person" rule when making investments
- how investment performance is to be measured and what benchmark is to be used in assessing performance (see below)
- controls with respect to the use of derivatives. Derivative instruments such as swaps can only be used to add value by enhancing fundamental investment strategies and cannot be used for speculative purposes. Over-the-counter derivatives may only be purchased from counterparties with at least a A+ credit rating at the time of purchase.

INVESTMENT STRATEGY

The strategy is to invest in a diversified portfolio to optimize long term returns at an acceptable level of risk. As liquid, marketable securities are transferred from the Transition Portfolio, the securities are reinvested based on the asset allocation policy established for the Portfolio. The asset allocation policy is based on a long run benchmark asset mix of 40% fixed income / 60% equities. The emphasis is on optimizing long term returns associated with equities relative to current income associated with fixed income.

BENCHMARK MEASUREMENT INDEX

Scotia Capital 91-Day T-Bill Index (SC 91-Day T-Bill Index)

Reflects the performance of the Canadian money market as measured by investments in 91-day Treasury Bills.

Scotia Capital Universe Bond Index (SC Universe Bond Index)

Covers all marketable Canadian bonds with terms to maturity of more than one year.

The purpose of this index is to reflect performance of the broad Canadian bond market in a manner similar to the way the TSE 300 represents the Canadian equity market.

Toronto Stock Exchange 300 Total Return Index (TSE 300 Index)

An index of 300 stocks, in fourteen subgroups, listed on the Toronto Stock Exchange designed to represent the Canadian equity market. It is a capitalization-weighted index calculated on a total return basis.

Morgan Stanley Capital International World Index (excluding Canada) (MSCI World Index)

An index of over 1,470 stocks on 23 stock exchanges around the world designed to represent an international equity market (excluding Canada).

The index is calculated on a total return basis, which includes investment of gross dividends before deduction of withholding taxes. The index covers about 60% of the issues listed on the exchanges of the countries included.

Russell Canadian Property Index (Russell Index)

An index comprised of institutionally held real estate investments consisting of over 1,100 properties distributed across Canada.

ASSET CLASS ALLOCATION

Asset Class	Policy Benchmark March 31		Benchmark Measurement Index
	2000	1999	
Deposits	3%	3%	SC 91-Day T-Bills Index
Fixed Income Securities	37%	37%	SC Universe Bond Index
Total Deposits and Fixed Income Securities	40%	40%	
Equities			
Canadian Equities	25%	25%	TSE 300 Index
Foreign Equities	30%	30%	MSCI World Index
Real Estate	5%	5%	Russell Index
Total Real Estate and Equities	60%	60%	

To manage the equity exposure and further enhance the potential returns, the foreign equity benchmark target is 32% of the Portfolio's market value. The foreign equity exposure increases the diversification of the fund across countries, industries and individual companies. In addition, the Fund's exposure to enhanced growth opportunities is increased and provides the potential for higher long run returns.

External investment managers are used in addition to the Investment Management Division to take advantage of specialized knowledge and expertise. This has made it possible to invest in specific asset classes such as Canadian "small-cap" equities, U.S. equities, global equities and diversify investment strategies within the Canadian "large cap" equity component.

ASSET MIX

On March 31, 2000, deposits and fixed income instruments accounted for 38.3% of total investments in the Endowment Portfolio and equity investments and real estate accounted for 61.7%. Taking the effect of equity swaps into account increases the equity exposure to 62.7%.

During the year, the cost of investments held in the Endowment Portfolio increased (or decreased) by the following amounts:

	(millions)
Foreign Equity Pools	\$ 663.7
Canadian Dollar Public Debt Pool	497.7
Directly held public Canadian equities	184.8
Private Real Estate Pool	184.5
Directly held fixed-income securities	(82.0)
Floating Rate Note Pool	(73.8)
Canadian Pooled Equity Fund	44.2
Deposits	(19.1)
Private Mortgage Pool	17.7
Canadian External Managers Fund	16.5
Private Equity Pools	15.8
Total increase at cost	<u>\$1,450.0</u>

INVESTMENT INCOME

The Endowment Portfolio earned \$679.5 million during the year, of which \$405.8 million was realized capital gains and \$273.7 million was interest, dividend and other income.

ENDOWMENT PORTFOLIO BREAKDOWN OF INVESTMENTS

as at March 31, 2000

(\$ millions)

	2000			1999		
	Cost	Fair Value	%	Cost	Fair Value	%
Deposits	\$ 103.4	\$ 103.4	1.7	\$ 122.5	\$ 122.5	2.8
Fixed Income Securities						
Public Fixed Income Securities	1,874.9	1,797.9	30.1	1,459.3	1,445.6	33.4
Floating Rate Note Pool*	48.9	48.5	0.8	39.9	40.8	1.0
Private Mortgage Pool	293.0	279.9	4.7	275.2	274.3	6.3
Total Deposits and Fixed Income Securities	2,320.2	2,229.7	37.3	1,896.9	1,883.2	43.5
Equities						
Canadian Equities	880.3	1,475.9	24.7	701.8	1,075.8	24.8
U.S. Equities	912.6	915.5	15.3	317.2	343.7	7.9
Global Equities	897.1	1,000.0	16.8	828.8	861.5	19.9
Real Estate	346.2	353.7	5.9	161.7	170.1	3.9
Total Equities	3,036.2	3,745.1	62.7	2,009.5	2,451.1	56.5
Total	\$ 5,356.4	\$ 5,974.8	100.0	\$ 3,906.4	\$ 4,334.3	100.0

* The Floating Rate Note Pool is used to support the Canadian equity swaps issued by the Portfolio. Without the effect of the swaps, the 2000 asset mix would be 38.3% total deposits and fixed income securities, 23.9% Canadian equities, and 61.9% total equities and real estate. Without the effect of the swaps, the 1999 asset mix would be 46.7% of total deposits and fixed income securities, 21.6% Canadian equities and 53.3% total equities and real estate. For more information, see note (m) of Schedule 1.

CAPITAL MARKETS IN REVIEW

Capital markets demonstrated a wide range of returns for the year ending March 2000 as shown by the table below. Fueled by stronger worldwide economic growth, equity markets substantially outperformed fixed income markets. Although the U.S. market, as measured by the Standard and Poor's 500 Index, showed a 13.2% return for the fiscal year, it lost its world performance leadership role as the Canadian and foreign equity markets showed more impressive results. Both the Canadian and Emerging Markets

returned 45.5%, followed by the Pacific Basin, which returned 35.4%. However, over a four-year period, the U.S. market still shows abnormally high returns. Fixed income markets, faced with inflationary concerns and tightening central bank policies, significantly under-performed the equity markets. Canadian T-bills delivered a 4.7% return while Canadian bonds (as measured by the Scotia Capital Universe Bond Index) returned only 1.3%.

RATES OF RETURN

(percentages)

Benchmark Returns

	Annual Returns		4 Year Return
	2000	1999	
Scotia Capital 91-Day T-Bill Index	4.70	4.90	4.30
Scotia Capital Universe Bond Index	1.30	7.00	8.30
Toronto Stock Exchange (TSE) 300 Index	45.50	-11.30	19.50
S&P 500 (in Cdn \$)	13.20	26.00	27.50
Morgan Stanley World Index (Ex. Canada)	16.10	20.50	20.44
Morgan Stanley Europe (in Cdn \$)	13.70	11.30	23.10
Morgan Stanley PacBasin (in Cdn \$)	35.40	17.40	3.40
Morgan Stanley Emerging Markets (in Cdn \$)	45.50	-15.90	4.60
Russell Canadian Property Index	7.00	15.60	12.70

INVESTMENT PERFORMANCE

ENDOWMENT PORTFOLIO PERFORMANCE

Period Ending March 31, 2000

(Annualized)

	Weightings at March 31, 2000	Actual Fund Market Return			Benchmark	Benchmark Portfolio Return			
		1 year	2 year	3 year		Weight	1 year	2 year	3 year
Short-term Fixed Income	2.8%	5.3%	5.2%	4.7%	SC 91-Day T-Bill Index	3%	4.7%	4.8%	4.4%
Long-term Fixed Income	34.7%	1.7%	4.2%	6.3%	SC Universe Bond Index	37%	1.3%	4.1%	7.0%
Canadian Equities (Public)	24.6%	37.8%	11.8%	19.1%	TSE 300 Index	25%	45.5%	13.6%	19.2%
Foreign Equities	32.0%	27.3%	21.6%	24.2%	MSCI World Index (excl. Canada)	30%	16.1%	18.3%	23.9%
Real Estate	5.9%	5.7%	9.5%	13.4%	Russell Index*	5%	9.9%	12.7%	15.1%
Total Portfolio	100%	18.0%	11.1%	14.4%		100%	16.5%	10.4%	14.2%

* The Russell Canadian Property Index (Russell Index) values their real estate portfolio throughout the year and the real estate portfolio in the Endowment Portfolio is revalued once a year.

The one year performance of the Endowment Portfolio of 18.0% exceeded the policy benchmark return of 16.5%. The absolute performance of the Portfolio reflected the performance of equity markets both domestically and abroad. The Portfolio did very well in terms of asset allocation. The Endowment Portfolio was overweight in Canadian equities, which was the best performing asset class for most of the year. The Portfolio was also underweight in bonds which was the lowest performing asset class.

On a relative basis, the Endowment Portfolio did better than other institutional funds. SEI, an asset management consulting firm, surveys the returns of institutional funds on a quarterly basis. Based on SEI's survey, the middle ranked or median fund earned 17.1% over the one year period ending March 31, 2000. This would have put the Portfolio into the top 50% of fund managers. On a three-year basis, the median fund returned 13.6%, 80 basis points less than the Endowment Portfolio return.

In terms of performance within the asset classes, the fixed income components of the Portfolio performed slightly ahead of their respective benchmarks. The Canadian equity component under-performed by a significant margin during the year but the under-performance was more than off-set by even stronger out-performance in the foreign equity component.

The main source of under performance by external managers was the narrowness of the Canadian market. Nortel Networks and its parent company BCE Inc., dominated returns. The internally managed portfolio and to a greater extent the externally managed portfolios with mandates to invest in medium to large companies were generally under-weighted in both Nortel Networks and BCE Inc. With small capitalization stocks out of favour, the external managers with these mandates also failed to reach their benchmarks.

Foreign equity performance was a strong contributor to the Portfolio's overall performance. The Canadian dollar strengthened against other currencies adding performance to the foreign equity swap contracts which are hedged into Canadian dollars. These contracts were used to establish the initial foreign exposure and are currently being wound down as direct investment alternatives are now in place.

In addition, foreign equity performance was boosted by strong relative performance by the external active managers. This was particularly evident in the PacBasin region (Japan, Asia and Australia) where the external managers outperformed by over 60%.

With a year of very positive investment returns the investment outlook remains constructive although risks are evident. The U.S. economy is heading into its tenth year of growth and with it, concerns regarding the inflation outlook. This has already impacted the fixed income market and will continue to impact markets in the year. Countering this, is the expected continued growth in world economies and corporate earnings, subdued inflation and strong government fiscal positions in most economies. Equity markets should out-perform bond markets for at least the first part of the year. The narrowness of several equity markets and especially the Canadian market is an area of concern and risk. By year end in Canada, Nortel Networks and BCE Inc. accounted for 27% of the TSE-300 Index. Being over-weighted or under-weighted in these holdings had a significant impact on performance and might continue to have a similar effect as the year progresses. However, this narrowness may be an opportunity as currently undervalued ignored stocks may provide the impetus for markets over the course of the year.

FIXED INCOME

Interest rates rose through the course of the year. The 91-Day T-bill rate rose from 4.6% to 5.3% while the 10 year bond yield rose from 5.10% to 5.90%. When bond yields rise the price of bonds decline and, as a result, the bond market as measured by the Scotia Capital Universe Bond Index recorded a 1.3% return for the year.

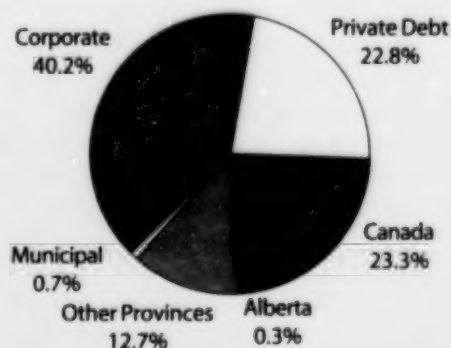
The Fund's short term component returned 5.3% for the year, 60 basis points higher than the Scotia Capital 91-Day T-bill Index. The focus is on maintaining a liquid portfolio of high quality marketable securities. The overall term to maturity will not exceed 180 days and at least 40% of the portfolio will be government (federal and provincial) and government guaranteed securities. The out-performance can be attributed to an exposure to higher yielding bank and corporate paper.

The fixed income component is invested in a broadly diversified pool of publicly traded bonds, privately issued bonds and mortgages. In total, the Fund's fixed income return was 1.4% slightly ahead of the benchmark Scotia Capital Universe Bond Index of 1.3%. The fund's bond component equaled the Scotia Capital Bond Universe Index return while mortgage component returned 3.3% for the year. The positive relative performance of the mortgage component was due mainly to the shorter duration of the mortgage component relative to the Scotia Capital Bond Universe Index.

DISTRIBUTION OF THE ENDOWMENT PORTFOLIO'S MARKETABLE FIXED INCOME HOLDINGS

Fair value as at March 31, 2000

Total: \$2,138.0 million



CANADIAN EQUITY

The TSE 300 Index returned 45.5% during the year. The performance of the TSE was strongly influenced by two issues, BCE Inc. and Nortel Networks, which in 1999 accounted for 72% of the total return of the index. This trend continued in the first quarter of 2000, with BCE Inc. and Nortel Networks accounting for nearly 50% of the total return of the TSE 300 Index. In total the Fund's Canadian equity component returned 37.8% during the 1999-2000 fiscal year, 7.7% below the TSE return.

The Canadian equity component is based on a diversified management structure that includes both indexed and actively managed mandates. One mandate is managed internally which is indexed to the TSE 100. The indexed pool, which replicates the return on larger capitalized companies, returned 44.8% versus the TSE 100 return of 48.72%. The externally managed mandates under performed the benchmark as a whole. Managers with specialized mandates to invest in smaller capitalized companies returned 19.4% in aggregate, while managers with mandates to invest in larger capitalized companies returned 29.3%. Managers investing in smaller capitalized companies were unable, by the nature of their mandate, to invest in either BCE Inc. or Nortel Networks which together, by March 31, 2000, accounted for nearly 30% of the TSE 300. Managers with broader mandates all held reduced weightings in both stocks as they felt valuations for both companies had exceeded a reasonable basis on which to invest. Further, reflecting the market weight of the two stocks in their portfolios would also result in excessive concentration that would be counter to the objective of holding a diversified portfolio of their best ideas.

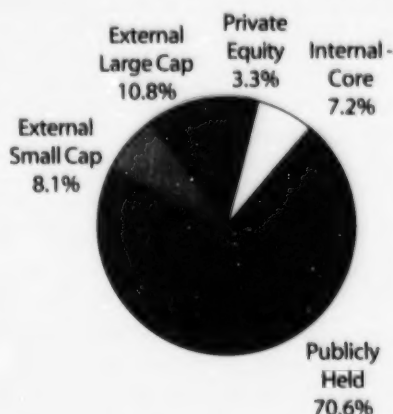
ENDOWMENT PORTFOLIO'S INDUSTRY EXPOSURE

Fair value at March 31, 2000

	Canadian Equities	TSE 300
Communications and Media	7.57%	7.78%
Conglomerates	3.20%	2.34%
Consumer Products	1.85%	2.63%
Financial Services*	14.28%	13.26%
Gold and Precious Minerals	1.82%	2.45%
Industrial Products	34.74%	35.97%
Merchandising	1.37%	2.09%
Metals and Minerals	3.86%	2.71%
Oil and Gas	7.68%	7.64%
Paper and Forest Products	1.54%	2.02%
Pipelines	1.92%	1.46%
Real Estate	0.19%	0.79%
Transportation and Environmental Services	1.29%	1.27%
Utilities	18.69%	17.59%
Total	100.0%	100.0%

* Includes the effects of equity swaps in the Financial Services Sector.

MANAGEMENT STRUCTURE IN CANADIAN EQUITIES



TOP TEN CANADIAN EQUITY HOLDINGS

Company	% Holding
Nortel Networks Corp.	9.5%
BCE Inc.	8.2%
Toronto-Dominion Bank	2.6%
Royal Bank of Canada	1.8%
Bank of Montreal	1.8%
Seagram Co. Ltd.	1.7%
Bank of Nova Scotia	1.7%
Bombardier Inc.	1.4%
Alcan Aluminum	1.3%
Celestica Inc.	1.2%

FOREIGN EQUITY

The foreign equity markets performed well in 1999. Overall, the Fund returned 27.3% versus a benchmark return of 16.1% for the Morgan Stanley World Index. The Fund's strong relative performance was attributable to several factors.

1. The managers in the Pacific Basin were able to out perform their benchmark by a substantial amount. Much of the out-performance came from superior stock selection in Japan directed at benefiting from the structural changes occurring in the Japanese economy.
2. An over weight in the Pacific Basin which was the strongest performing market during the year.
3. The Canadian dollar continued to strengthen. A significant portion of the Fund's foreign equity exposure is in the form of equity swaps. The income on Canadian short term instruments is

swapped for the return of a foreign equity index in local currency. These swaps were put into place to provide immediate market exposure during the initial funding of the Portfolio. As the transaction is done in Canadian dollars, the equity swaps will out-perform relative to an unhedged benchmark if the Canadian dollar increases in value.

4. Improved relative performance from the US component. In the past, the US component had significantly under-performed its benchmark, the S&P 500 index. Over the last four years, investment managers in general have had a difficult time out-performing this index. In 1998, it was decided to wind-up the internally managed U.S. pool and replace it with an index pool which would match the return of the S&P 500 index. As a result, the variance from the index has been substantially reduced.

The foreign equity exposure is broadly diversified across all markets. Relative to the policy benchmark which is equally weighted between the US and international equities, the Fund has a slight underweight in the U.S., off-set by an overweight in international equities particularly in the Pacific Basin.

ENDOWMENT PORTFOLIO'S TEN LARGEST EQUITY HOLDINGS BY COUNTRY*

Fair value at March 31, 2000 (\$ millions)

Total:	
Canada	\$1,476
United States	\$916
Japan	\$299
United Kingdom	\$173
France	\$92
Germany	\$84
Switzerland	\$53
Netherlands	\$52
Hong Kong	\$41
Sweden	\$33

* Includes the effect of derivatives.

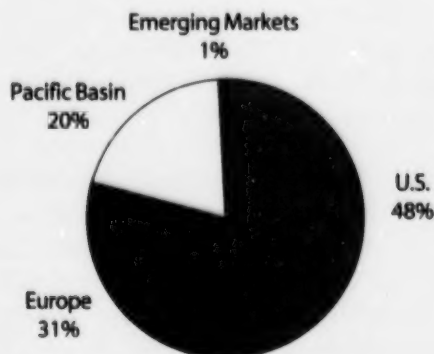
REAL ESTATE

Returns in real estate were more modest in 1999-2000. The Russell Canadian Property Index is estimated to have returned 9.9% for the year, while the Fund's real estate return was 5.7%. The difference is attributable to the calculation of return. The benchmark is calculated on a gross basis and excludes expenses such as capital expenditures and transaction costs. The Fund return is calculated on a net basis fully reflecting all costs and expenses.

ENDOWMENT PORTFOLIO'S DISTRIBUTION OF FOREIGN EQUITY

Fair value as at March 31, 2000

Total: \$1,915.4 million



Transition Portfolio

Introduction

During the 1999-2000 fiscal year, the Transition Portfolio transferred \$1.2 billion to the Endowment Portfolio. At March 31, 2000, the fair value of the Transition Portfolio's investments was \$6.9 billion (including loans totaling \$98.8 million at cost) compared to a cost of \$6.9 billion.

TRANSITION PORTFOLIO BREAKDOWN OF INVESTMENTS AS AT MARCH 31, 2000

(\$ millions)

	2000			1999		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash	84.3	84.3	1.2	45.0	45.0	0.5
Marketable Fixed Income Securities	6,170.3	6,088.5	88.3	7,062.7	7,178.2	86.4
Policy Investments						
Provincial Corporation Debentures	512.5	592.1	8.6	771.8	902.0	10.8
Loans (at cost)	98.8	98.8	1.4	107.8	107.8	1.3
Canadian Equities	54.0	35.3	0.5	65.7	79.9	1.0
Total Policy Investments	665.3	726.2	10.5	945.3	1,089.7	13.1
Total	6,919.9	6,899.0	100.0	8,053.0	8,312.9	100.0

INVESTMENT OBJECTIVE

The legislated investment objective of the Transition Portfolio is to make investments with the objective of supporting the government's short term to medium term income needs as reflected in the government's consolidated fiscal plan. The investment objective of the Transition Portfolio is to earn a return that exceeds the interest cost of the Canadian dollar portion of the Province's debt.

INVESTMENT POLICY

The Transition Portfolio's investment policy statement is reviewed and recommended annually by the Investment Operations Committee to the Provincial Treasurer. The investment policy statement for the

Portfolio is then approved by the Provincial Treasurer and forms the reference document for Alberta Treasury as the investment manager. The investment policy statement must be consistent with the business plan of the Fund and it provides the overall investment framework as well as specific policies and guidelines such as:

- a quality constraint for fixed income securities of investment grade (a minimum of a "BBB" credit rating or equivalent)
- investment limits for the various categories of fixed income securities

- controls to minimize the deviation of the Portfolio's duration from that of the Province's debt portfolio
- a summary of the legislative authority and governance structure, including specific duties of the investment manager
- requirement to adhere to the "prudent person" rule when making investments
- how investment performance is to be measured and what benchmark is to be used in assessing performance (see below)
- controls with respect to the use of derivatives. Derivative instruments such as swaps can only be used to add value by enhancing fundamental investment strategies and cannot be used for speculative purposes. Over-the-counter derivatives may only be purchased from counterparties with at least a A+ credit rating at the time of purchase.

INVESTMENT STRATEGY

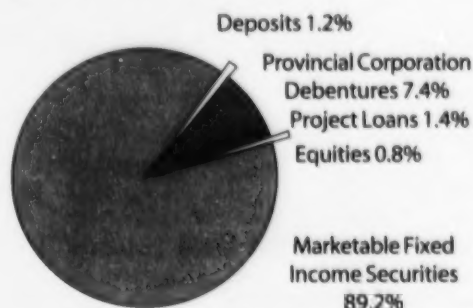
The investment strategy, as expressed in the business plan and investment policy statement, is to invest in investment grade interest bearing securities within a duration range for the overall Portfolio of between 2.4 and 3.2 years (to minimize the deviation from the Province's debt portfolio duration). Duration is the weighted average of the timing of when cash flows (such as interest and principal) are received and provides a means of gauging how sensitive a fixed income portfolio is to increases or decreases in the general level of interest rates.

The bulk of assets in the Transition Portfolio continue to be in marketable fixed income securities (89.2%). Provincial debentures constitute 7.4% and project loans are 1.4% of the Transition Portfolio. Corporate securities comprise 46.1% of the Transition Portfolio's marketable fixed income securities. Federal government and Federal government guaranteed bonds constitute another 24.7% of the marketable fixed income securities. The second largest component of the fixed income investments, at 26.5% of the total, is the Transition Portfolio's holdings of other provincial governments' bonds.

TRANSITION PORTFOLIO INVESTMENT BREAKDOWN

(% of cost) at March 31, 2000

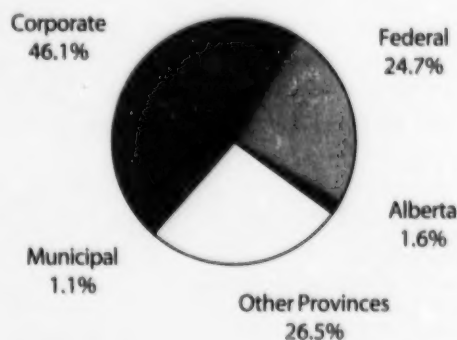
Total: \$6,919.9 million



MARKETABLE FIXED INCOME SECURITIES BREAKDOWN

(% of cost) at March 31, 2000

Total: \$6,170.3 million



Project loans have been further reduced. On a cost basis, the value of project loans is now \$98.8 million or 1.4% of the Transition Portfolio. These loans are Ridley Grain Ltd. (\$93.5 million) and Vencap Acquisition Corporation (\$5.3 million).

In addition, \$259.2 million of Provincial corporation debentures were repaid or redeemed. The Fund's investment in provincial corporation debentures was reduced from \$771.8 million at the beginning of the year to \$512.6 million at March 31, 2000.

PERFORMANCE

For the current fiscal year 1999-2000, the one year market return for the Transition Portfolio was 3.0%

with a modified duration of 2.4 years. The benchmark cost of borrowing was 2.9% during that same period with a modified duration of 2.8 years. The Transition Portfolio out-performed the Liability Portfolio due to:

- management of the duration in the Transition Portfolio relative to the Liability Portfolio.
- higher weighting of corporate and other provincial bonds that return more than the Alberta benchmark.

The book value return of the Transition Portfolio for the 1999-2000 fiscal year was 6.7% compared to the cost of the Canadian dollar portion of the Province's debt of 6.8%.

TRANSITION PORTFOLIO PERFORMANCE

Period Ending March 31, 2000

(Annualized Return at Market)

	1 yr	2 yr	3 yr
Transition Portfolio	3.0%	4.2%	5.0%
Current Transition Benchmark*	2.9%	4.4%	5.5%
New Transition Benchmark	3.9%	4.6%	4.8%

* Canadian Dollar Portion of the Province's Liability Portfolio

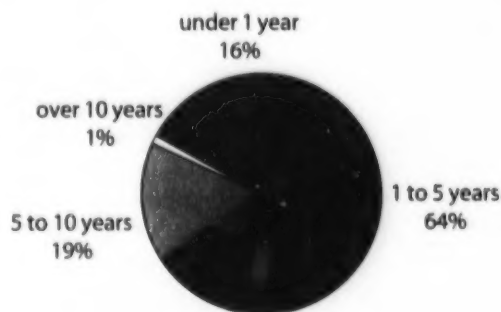
INVESTMENT INCOME

During the year, the Transition Portfolio generated investment income totalling \$491.3 million. Approximately \$4.9 million was accounted for by realized capital gains and \$486.4 million was due to interest, dividend and other income.

The Government of Alberta financial statements are prepared on a consolidated basis which eliminates the income the Heritage Fund earns on holdings from Alberta Government and Provincial Corporation securities totalling \$81.8 million for the year ending March 31, 2000.

TERM STRUCTURE OF FIXED INCOME SECURITIES

as at March 31, 2000 (principle amount)



Administrative Expenses

Administrative expenses include investment management, cash management, custodial and other expenses. External management and custodial fees are deducted directly from the income of the externally managed pooled funds. Internal administrative expenses are deducted from the internally managed pooled funds and directly from the Endowment Portfolio and the Transition Portfolio.

In the 1999-2000 year, the administrative expenses charged directly to the Fund were \$1.6 million (\$0.7 million in the Endowment Portfolio and \$0.9 million in the Transition Portfolio) compared to \$1.6 million in the 1998-99 year (\$0.5 million in the Endowment Portfolio and \$1.1 million in the Transition Portfolio).

The Fund's total administrative expenses for the year ending 1999-2000, including amounts deducted directly from the investment income of the pooled funds, amounted to \$6.4 million compared to \$5.0 million in the 1998-99 year.

ADMINISTRATIVE EXPENSES BREAKDOWN for the year ended March 31, 2000 (\$ millions)

	2000	1999
Endowment Portfolio		
direct	\$ 0.7	\$ 0.5
externally managed pools	4.0	2.9
internally managed pools	0.8	0.5
	5.5	3.9
Transition Portfolio		
direct	0.9	1.1
	\$ 6.4	\$ 5.0
Expenses as a percent of net assets at fair value	0.05%	0.04%

The reason for the increase in administrative expenses is the transfer of at least \$1.2 billion each year from the Transition Portfolio to the Endowment Portfolio. The Endowment Portfolio is more expensive to administer because it is predominantly invested in equities, a large portion of which are foreign equities which are externally managed.

Glossary

ACCRUED INTEREST

Interest income that has been earned but not yet paid in cash.

BOND/DEBENTURE

A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

BOOK VALUE

See Cost Value.

CAPITAL GAIN

The market value received on sale of an asset beyond its book value or purchase price. If an asset is bought for \$50 and sold for \$75, the realized capital gain (profit) is \$25.

COST VALUE

The value for which an asset was acquired.

DEPOSITS

Liquid, short term investments. A cash equivalent.

DURATION (ALSO CALLED MODIFIED DURATION)

Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the

greater its percentage price volatility.

FAIR VALUE

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FIXED INCOME SECURITIES

Interest bearing investments such as bonds or debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)

The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

These are accounting guidelines, formulated by the CICA's (Canadian Institute of Chartered Accountants) Accounting Standards Committee, that govern

how businesses report their financial statements to the public. They are the principles under which the financial statements of the Heritage Fund and other provincial funds are prepared. These principles help ensure fair presentation of the financial affairs of the Province.

INCOME

The return from an investment. Can be derived from interest, dividends or appreciation in the value of the asset that is realized when the asset is sold.

INTERNAL RATE OF RETURN

The internal rate of return is the average rate earned by each and every dollar invested during the period. This rate is influenced not only by the movements in financial markets and decisions made by portfolio managers, but also by the timing and size of the cash inflows and outflows and the beginning and ending book or market values. Since the internal rate of return weights the final overall return by the size of the investment and the timing and size of cash flows in each subperiod, the method produces inappropriate results if the purpose is to compare the performance of two investment funds. For that

purpose, the investment industry standard is to use time-weighted rates of return (see "Market (Value) Rate of Return").

INVESTMENT INCOME

Investment income is income from realized capital gains, interest, dividends, security lending and swaps.

INVESTMENT PORTFOLIOS

A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LIQUIDITY

Describes the ease with which an asset can be turned into cash and the certainty of the value it will fetch.

MARKET (VALUE) RATE OF RETURN

The market value rate of return measures income (dividends, cash interest and accrued interest) and capital appreciation (or capital depreciation). The method used to calculate the return is the time-weighted method with quarterly valuations. Time-weighted rates of return are designed to eliminate the effect that the size and timing of cash flows has on the **internal rate of return** since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

MARKETABLE SECURITY

An investment for which there is usually a ready market.

MID-TERM INVESTMENT

A fixed income investment (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

MODIFIED DURATION

A measure of price volatility of fixed income securities (i.e., bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY

A fixed income security that matures within one year from the date of acquisition.

NET INCOME

The amount of earnings remaining after deducting expenses.

NOMINAL RATE OF RETURN

A measure of return that does not exclude or net out the effect of inflation (see *Real Rate of Return*).

PAR VALUE

A value set as the face amount of a security, typically expressed as multiples of \$100 or \$1,000. Bondholders receive par value for their bonds on maturity.

PORTFOLIO

The collection of investment securities held by an investor or a subset thereof.

PROVINCIAL CROWN CORPORATIONS

Special purpose companies which carry out government programs. Provincial Crown corporations are

used because the nature of the programs are different than those delivered through government departments. The provincial Crown corporations discussed in this report generally offer financial services on a partial or full cost-recovery basis. Alberta Opportunity Company and the Alberta Social Housing Corporation are examples of Alberta provincial Crown corporations.

REAL VALUE OR REAL RATE OF RETURN

A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED/UNREALIZED

Terms generally used to describe capital gains or losses. A gain or loss is realized when an asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY

Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT

An investment with a maturity date of less than one year.

TERM-TO-MATURITY

The number of years left until a bond matures.

VOLATILITY

In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

**STATEMENT OF INVESTMENT RETURNS OF THE
TRANSITION PORTFOLIO AND ENDOWMENT PORTFOLIO
FOR THE YEAR ENDED MARCH 31, 2000**

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Auditor's Report on Investment Returns

TO THE PROVINCIAL TREASURER

I have audited the Statement of Investment Returns of the Alberta Heritage Savings Trust Fund for the year ended March 31, 2000. This statement is the responsibility of the Fund's management. My responsibility is to express an opinion on this statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation.

In my opinion, this statement presents fairly, in all material respects, the investment returns of the Fund for the year ended March 31, 2000 in accordance with the disclosed basis of accounting as described in Note 2 to the statement.



FCA
Auditor General

Edmonton, Alberta
May 30, 2000

STATEMENT OF INVESTMENT RETURNS*For the year ended March 31, 2000*

	2000	1999
Transition Portfolio		
Short term fixed-income	4.8	5.4
Long term fixed-income	3.1	5.7
Policy loans (Note 2)	4.2	6.8
Equities	(38.1)	(24.0)
Total Return	3.0	5.4
Endowment Portfolio		
Short term fixed-income	5.3	5.0
Long term fixed-income	1.7	6.8
Real estate	5.7	13.4
Canadian equities	37.8	(9.2)
Foreign equities	27.3	16.1
Total return	18.0	4.7
Total Rate of Return for the Fund	9.0	5.4

NOTES TO THE STATEMENT OF INVESTMENT RETURNS OF THE TRANSITION PORTFOLIO AND THE ENDOWMENT PORTFOLIO*For the year ended March 31, 2000***NOTE 1 AUTHORITY AND PURPOSE**

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act (the "Act"), Chapter A-27.01, Revised Statutes of Alberta 1980, as amended.

NOTE 2 SIGNIFICANT ACCOUNTING POLICY

Rates of return have been calculated using the time-weighted method with monthly valuations.

The rate of return on investment measures the total proceeds received from an investment per dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized). The investment industry uses time-weighted rates of

return when comparing the returns of funds with other funds or indices. The time-weighted rate of return is designed to minimize the effect that the size and timing of cash flows has on the internal rate of return, since the pattern of cash flows vary significantly among funds.

According to the Alberta Heritage Savings Trust Fund Business Plan, the performance of both the Transition Portfolio and the Endowment Portfolio are to be measured on a market value basis. Investment returns for the project loans are based on cost values.

NOTE 3 MANAGEMENT APPROVAL

The Statement of Investment Returns has been approved by management.

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

Auditor's Report

TO THE PROVINCIAL TREASURER

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 2000 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
May 18, 2000

FINANCIAL STATEMENTS

BALANCE SHEET

March 31, 2000 (thousands)

	2000	1999
Assets:		
Portfolio investments:		
Endowment portfolio (Schedule 1)	\$ 5,356,412	\$ 3,906,359
Transition portfolio (Schedule 2)	6,919,980	8,053,014
Accrued interest and accounts receivable	142,114	138,153
	<u>\$ 12,418,506</u>	<u>\$ 12,097,526</u>
Liabilities and fund equity:		
Liabilities:		
Accounts payable	\$ 3,073	\$ 3,195
Due to the General Revenue Fund	159,114	68,012
	<u>162,187</u>	<u>71,207</u>
Fund equity (Note 5):		
Endowment portfolio	5,248,649	3,818,649
Transition portfolio	7,007,670	8,207,670
	<u>12,256,319</u>	<u>12,026,319</u>
	<u>\$ 12,418,506</u>	<u>\$ 12,097,526</u>

The accompanying notes and schedules are part of these financial statements.

STATEMENT OF OPERATIONS

March 31, 2000 (thousands)

	2000		1999
	Budget	Actual	Actual
Income:			
Investment income:			
Endowment portfolio	\$ 280,000	\$ 679,470	\$ 270,545
Transition portfolio	516,900	491,314	663,117
	<u>796,900</u>	<u>1,170,784</u>	<u>933,662</u>
Expenses:			
Administrative expenses (Note 7)	2,300	1,670	1,651
	<u>794,600</u>	<u>1,169,114</u>	<u>932,011</u>
Net income (Note 6)			
			932,011
Transfers:			
Transfers to the General Revenue Fund	794,600	939,114	932,011
Amount retained (Note 5)	<u>—</u>	<u>230,000</u>	<u>—</u>
Net increase in fund equity	<u>\$ —</u>	<u>230,000</u>	<u>—</u>
Fund equity at beginning of year		12,026,319	12,026,319
Fund equity at end of year		<u>\$ 12,256,319</u>	<u>\$ 12,026,319</u>

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended March 31, 2000 (thousands)

	2000	1999
Operating transactions:		
Net income	\$ 1,169,114	\$ 932,011
Non-cash items included in net income	(177,188)	(82,755)
	991,926	849,256
Decrease (Increase) in receivables	(3,961)	36,639
Decrease in payables	(122)	(81,406)
Cash provided by operating transactions	987,843	804,489
Investing transactions:		
Proceeds from disposals, repayments and redemptions of investments	6,419,163	7,817,615
Purchase of investments	(6,538,754)	(7,603,587)
Cash provided by (applied to) investing transactions	(119,591)	214,028
Transfers:		
Transfers to the General Revenue Fund	(939,114)	(932,011)
Increase (decrease) in Due to the General Revenue Fund	91,102	(130,334)
Cash applied to transfers	(848,012)	(1,062,345)
Increase (decrease) in cash and cash equivalents	20,240	(43,828)
Cash and cash equivalents at beginning of year	167,514	211,342
Cash and cash equivalents at end of year	\$ 187,754	\$ 167,514
Consisting of Deposits in the Consolidated Cash Investment Trust Fund:		
Endowment Portfolio (Schedule 1)	\$ 103,421	\$ 122,504
Transition Portfolio (Schedule 2)	84,333	45,010
	\$ 187,754	\$ 167,514

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2000
NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act (the Act), Chapter A-27.01, Revised Statutes of Alberta 1980, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

Investments of the Fund are held in an Endowment Portfolio and a Transition Portfolio. The Endowment Portfolio has the objective of maximizing long term financial returns. The Transition Portfolio has the objective of providing income support to the Government's consolidated fiscal plan over the short term to medium term. Commencing in 1996-97, the Act provides that all assets in the Transition Portfolio must be transferred to the Endowment Portfolio by December 31, 2005.

**NOTE 2 SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES AND
REPORTING PRACTICES**

These financial statements are prepared in accordance with generally accepted accounting principles.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio investments

Fixed income securities, mortgages, equities and real estate investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the

straight-line method over the life of the investments.

Investments in loans are recorded at cost less any unearned income and allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment in fixed income securities, mortgages, equities and real estate that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Income and expense on index swaps and interest rate swaps are accrued as earned and gains and losses arising as a result of disposal of investments are included in the determination of investment income.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange

FINANCIAL STATEMENTS

Note 2 (continued)

contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

- (i) Public fixed income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- (ii) Mortgages, provincial debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- (iii) The fair value of private equities is estimated by management.
- (iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.
- (v) Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practical within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

(vi) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(vii) The fair values of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

NOTE 3 RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The *Standing Committee on the Alberta Heritage Savings Trust Fund* reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 1999-2000 business plan limits investments of the Transition Portfolio to include only fixed-income securities other than securities transferred from the previous structure and proposes the following asset mix policy for the Endowment Portfolio:

Fixed income securities	30% to 50%
Equities	70% to 50%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Borrowing or

FINANCIAL STATEMENTS

Note 3 (continued)

leveraging is not allowed with the exception of pre-existing mortgages on real estate. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 4 INDEX SWAPS, INTEREST RATE SWAPS, FOREIGN EXCHANGE AND FUTURES CONTRACTS

The Fund uses index and interest rate swaps held directly, or indirectly through pooled funds, to enhance return and for hedging risks. A swap is a contractual agreement between two parties to exchange a series of cash flows based on a notional amount and does not involve the exchange of the underlying principal. An index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional value. All swaps are supported by underlying securities. Leveraging is not allowed.

The following is a summary of the Fund's proportionate share of the notional amount of index swaps and interest rate swaps held directly or issued by pooled funds at March 31, 2000:

The fair value of swaps have been included in the determination of the fair value of the respective pooled investment funds.

Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future. As at March 31, 2000, the Fund's proportionate share of outstanding forward foreign exchange contracts issued by the External Managers Fund amounted to \$106,675,000 (1999: \$145,486,000).

A stock index futures contract is an agreement to take or make delivery of an amount of cash reflecting the difference between changes in the level of the specified stock index. As at March 31, 2000, the Fund's proportionate share of the notional value of stock index futures contracts issued by the External Managers Fund amounted to \$1,139,000 (1999: \$5,062,000).

	Remaining term to Maturity			2000 Total	1999 Total
	Under 1 year	1 to 3 years	Over 3 years		
	(thousands)				
Equity Index Swaps:					
United States equities (US Passive Equity Pooled Fund)	\$ 233,219	\$ —	\$ —	\$ 233,219	\$ 168,296
Foreign equities (EAFE Structured Equity Pool)	184,347	—	—	184,347	—
Canadian equities, directly held	59,325	—	—	59,325	142,069
United States equities (US Structured Equity Pool)	30,285	—	—	30,285	—
Foreign equities (Global Structured Equity Pooled Fund)	—	—	—	—	292,227
Bond Index Swaps: (Canadian Dollar Public Debt Pool)	128,977	95,255	—	224,232	250,319
Interest Rate Swaps:					
Canadian Dollar Public Debt Pool	20,180	102,695	112,873	235,748	179,896
EAFE Structured Equity Pool	19,462	55,711	44,760	119,933	—
Directly held	—	109,614	—	109,614	134,614
FloatingRate Note Pool	12,760	36,523	29,342	78,625	138,048
US Passive Equity Pooled Fund	13,861	38,155	12,296	64,312	15,247
US Structured Equity Pool	2,974	8,514	6,840	18,328	—
Global Structured Equity Pooled Fund	—	—	—	—	208,107
Total	\$ 705,390	\$ 446,467	\$ 206,111	\$ 1,357,968	\$ 1,528,823

FINANCIAL STATEMENTS

NOTE 5 FUNDEQUITY

By no later than 2005, all assets will be transferred from the Transition Fund to the Endowment Fund. Annually, commencing in 1996-97, a minimum of \$1.2 billion of assets, at cost, is transferred. Commencing in 2000-01, the Lieutenant Governor in Council has approved the transfer of assets with a book value of not less than \$1.2 billion and not more than \$2.4 billion.

Section 8(2) of the *Alberta Heritage Savings Trust Fund Act (the Act)* states that the net income of the Heritage Fund less any amount retained in the Fund to

maintain its value shall be transferred to the General Revenue Fund annually in a manner determined by the Provincial Treasurer. Section 11(5) of the Act states that for fiscal years subsequent to 1999 and until the accumulated debt is eliminated in accordance with the *Fiscal Responsibility Act*, the Provincial Treasurer is not required to retain any income in the Heritage Fund to maintain its value, but may retain such amounts as the Provincial Treasurer considers advisable. During the year, the Fund obtained approval to retain an amount of \$230 million in the Endowment Portfolio.

NOTE 6 NET INCOME

Deposit and fixed income securities:

Deposits in the Consolidated Cash Investment Trust Fund

Public fixed income securities, directly held:

Government of Canada, direct and guaranteed

Alberta, direct and guaranteed

Other provincial, direct and guaranteed

Municipal

Corporate

Security lending

Provincial corporations debentures

Loans

Canadian Dollar Public Debt Pool

Private Mortgage Pool

Floating Rate Note Pool

Private Debt Pool

	Endowment Portfolio	Transition Portfolio	2000 Total	1999 Total
	(thousands)			(Note 8)
Deposits in the Consolidated Cash Investment Trust Fund	\$ 4,577	\$ 2,772	\$ 7,349	\$ 8,931
Public fixed income securities, directly held:				
Government of Canada, direct and guaranteed	3,160	108,085	111,245	168,850
Alberta, direct and guaranteed	—	8,566	8,566	12,644
Other provincial, direct and guaranteed	1,591	125,060	126,651	173,545
Municipal	—	4,370	4,370	4,336
Corporate	99	151,425	151,524	160,647
Security lending	—	386	386	397
Provincial corporations debentures	—	73,204	73,204	103,388
Loans	—	4,643	4,643	20,095
Canadian Dollar Public Debt Pool	89,771	—	89,771	87,826
Private Mortgage Pool	21,074	—	21,074	16,406
Floating Rate Note Pool	11,461	—	11,461	8,318
Private Debt Pool	—	—	—	4,707
	131,733	478,511	610,244	770,090
Equities:				
Public Canadian equities, directly held	\$ 166,258	\$ 12,783	\$ 179,041	\$ 53,193
External Managers Fund (Global)	143,713	—	143,713	44,474
External Managers Fund (United States)	77,300	—	77,300	16,051
EAFE Structured Equity Pool	55,467	—	55,467	—
US Passive Equity Pooled Fund	30,770	—	30,770	28,038
Global Structured Equity Pooled Fund	23,541	—	23,541	36,382
Private Real Estate Pool	20,232	—	20,232	4,378
Canadian Pooled Equity Fund	19,200	—	19,200	598
External Managers Fund (Canadian)	17,376	—	17,376	3,335
US Structured Equity Pool	6,152	—	6,152	—
Private Equity Pool	1,209	—	1,209	808
Security lending	121	20	141	82
Private Equity Pool (98)	(49)	—	(49)	(14)
United States Pooled Equity Fund	(177)	—	(177)	831
Swaps, direct	(13,376)	—	(13,376)	(24,584)
	547,737	12,803	560,540	163,572
Investment income	679,470	491,314	1,170,784	933,662
Administrative expenses (Note 7)	(733)	(937)	(1,670)	(1,651)
Net income	\$ 678,737	\$ 490,377	\$ 1,169,114	\$ 932,011

FINANCIAL STATEMENTS

Note 6 (continued)

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments.

Investment income from the Endowment portfolio and the Transition portfolio includes net gains from disposal of investments totalling \$405,831,000 (1999: \$83,614,000) and \$4,922,000 (1999: \$70,774,000) respectively.

NOTE 7 ADMINISTRATIVE EXPENSES

Administrative expenses include investment management, cash management, safekeeping costs and other expenses charged on a cost-recovery basis directly from the Department of Treasury. The Fund's total administrative expense for the year, including amounts deducted directly from investment income of pooled funds is as follows:

	2000	1999
	<i>(thousands)</i>	
Direct fund expenses, (Note 6)	\$1,670	\$1,651
Externally managed investment pools	3,982	2,896
Internally managed investment pools	763	493
Total	\$6,415	\$5,040
Expenses as a percentage of net assets at fair value	0.05%	0.04%

NOTE 8 COMPARATIVE FIGURES

Certain 1999 figures have been reclassified to conform to 2000 presentation.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by management.

FINANCIAL STATEMENTS

SCHEDULE OF ENDOWMENT PORTFOLIO INVESTMENTS

SCHEDULE 1

March 31, 2000 (thousands)

	2000			1999		
	Cost	Fair Value	%	Cost	Fair Value	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	\$ 103,421	\$ 103,421	1.7	\$ 122,504	\$ 122,504	2.8
Fixed income securities:						
Public, directly held (b)						
Government of Canada, direct and guaranteed	26,560	25,560	0.5	63,772	65,439	1.5
Other provincial, direct and guaranteed	—	—	—	44,830	46,059	1.1
Canadian Dollar Public Debt Pool (c)	1,848,383	1,772,350	29.7	1,350,689	1,334,164	30.8
Private Mortgage Pool (d)	292,952	279,892	4.7	275,243	274,250	6.3
Floating Rate Note Pool (e)	108,206	107,864	1.8	181,982	182,865	4.2
Total deposit and fixed income securities (n)	2,379,522	2,289,087	38.3	2,039,020	2,025,281	46.7
Canadian equities:						
Public, directly held (f)	464,534	1,001,034	16.8	279,726	651,008	15.0
External Managers Fund (Canadian) (g)	227,143	267,400	4.5	210,681	215,144	5.0
Canadian Pooled Equity Fund (h)	84,818	101,505	1.7	40,598	41,760	1.0
Private Equity Pool (98) (i)	32,022	32,033	0.6	14,502	14,502	0.3
Private Equity Pool (i)	12,489	14,645	0.3	14,177	11,273	0.3
Total Canadian equities (n)	821,006	1,416,617	23.9	559,684	933,687	21.6
Foreign equities:						
External Managers Fund (Global) (g)	706,668	814,323	13.6	525,561	564,157	13.0
External Managers Fund (United States) (g)	639,860	653,208	10.9	143,616	171,535	4.0
US Passive Equity Pooled Fund (j)	236,847	229,334	3.8	170,381	170,466	3.9
EAFE Structured Equity Pool (k)	190,420	185,616	3.1	—	—	—
US Structured Equity Pool (l)	33,173	30,754	0.5	—	—	—
United States Pooled Equity Fund	2,738	2,179	—	3,139	1,675	—
Global Structured Equity Pooled Fund	—	—	—	303,261	297,346	6.9
Total foreign equities	1,809,706	1,915,414	31.9	1,145,958	1,205,179	27.8
Real estate (m)	346,178	353,699	5.9	161,697	170,146	3.9
Total equities and real estate (n)	2,976,890	3,685,730	61.7	1,867,339	2,309,012	53.3
Total investments (o)	\$ 5,356,412	\$ 5,974,817	100.0	\$ 3,906,359	\$ 4,334,293	100.0

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NOTES TO SCHEDULE 1

The majority of the Endowment portfolio investments are held in pooled investment funds established and administered by the Provincial Treasurer. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2000, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	2000	1999
Canadian Dollar Public Debt Pool	19.5	16.4
Canadian Pooled Equity Fund	4.1	2.0
External Managers Fund	25.9	21.9
EAFE Structured Equity Pool	21.7	—
Floating Rate Note Pool	4.5	7.5
Global Structured Equity Pooled Fund	—	21.7
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Mortgage Pool	28.0	27.1
Private Real Estate Pool	28.6	23.4
US Passive Equity Pooled Fund	25.0	26.9
US Structured Equity Pool	22.5	—
United States Pooled Equity Fund	18.0	18.0

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of five years.

(b) Public fixed income instruments are managed with the objective of providing competitive returns over a four-year period while maintaining appropriate security of the Fund's capital. Return

is maximized within the risk constraints on the portfolio by management of portfolio duration and issuer mix. As at March 31, 2000, the fixed-income security held by the Fund has an average effective market yield of 6.40% per annum and matures on June 1, 2006.

(c) The Canadian Dollar Public Debt Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is expected to be achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2000, securities held by the Pool have an average effective market yield of 6.39% per annum (1999: 5.51% per annum) and the following term structure based on principal amount:

under 1 year – 9% (1999: – 10%);
 1 to 5 years – 35% (1999: – 37%);
 5 to 10 years – 29% (1999: – 24%);
 10 to 20 years – 15% (1999: – 21%);
 over 20 years – 12% (1999: – 8%).

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The following is a summary of the Alberta Heritage Savings Trust Fund's investment in the Canadian Dollar Public Debt Pool as at March 31, 2000:

	2000		1999	
	Cost	Fair Value	Cost	Fair Value
	(thousands)			
Deposits in the Consolidated Cash Investment Trust Fund	\$ 33,010	\$ 33,010	\$ 18,797	\$ 18,797
Public Fixed Income securities:				
Government of Canada, direct and guaranteed	488,167	473,175	364,229	366,823
Province of Alberta, direct and guaranteed	6,998	7,003	30,769	31,780
Other provinces, direct and guaranteed	279,765	270,899	168,520	174,009
Municipal	15,342	14,718	13,746	13,632
Corporate	784,064	751,579	544,561	527,995
Private Fixed Income securities				
Corporate	226,427	207,356	193,991	185,052
Total deposit and fixed income securities	1,833,773	1,757,740	1,334,613	1,318,088
Accounts receivable and accrued investment income	60,908	60,908	32,496	32,496
Accounts payable	(46,298)	(46,298)	(16,420)	(16,420)
	14,610	14,610	16,076	16,076
Total - Alberta Heritage Savings Trust Fund	\$ 1,848,383	\$ 1,772,350	\$ 1,350,689	\$ 1,334,164
Total - Canadian Dollar Public Debt Pool	\$ 9,141,413	\$ 9,089,649	\$ 7,812,035	\$ 8,112,618

- (d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (96.9%) and provincial bond residuals (3.1%). Risk is reduced by limiting investments to include NHA insured loans and first mortgage loans that provide diversification by property usage. As at March 31, 2000, securities held by the Pool have an average effective market yield of 7.66% per annum (1999: 7.08%) and the following term structure based on principal amount:
- under 1 year - 7% (1999: - 9%);
 - 1 to 5 years - 28% (1999: - 33%);
 - 5 to 10 years - 29% (1999: - 42%);
 - 10 to 20 years - 22% (1999: - 16%);
 - and over 20 years - 14% (1999: nil).
- (e) The Floating Rate Note Pool is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, the Pool provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of ten years or less.

FINANCIAL STATEMENTS

(f) Competitive returns and capital preservation are expected from investments in Canadian public equities. Risk is reduced by prudent security selection and management of holdings in various industrial sectors. As at March 31, 2000, equity securities with a fair value of \$119,645,000 (1999: \$99,820,000) were loaned to certain borrowers. The loans were secured by marketable securities with a fair value of \$126,975,000

(1999: \$109,310,000). During the term of the loans, the Fund retains the right to receive income on the securities loaned, in addition to the fees earned.

The following is a summary of directly held Canadian public equities which are listed by industrial classifications used by the Toronto Stock Exchange:

	2000			1999		
	Cost	Fair Value	%	Cost	Fair Value	%
(thousands)						
Communications and media	\$ 26,774	\$ 80,221	8.0	\$ 16,269	\$ 73,078	11.2
Conglomerates	16,295	34,028	3.4	14,472	44,367	6.8
Consumer products	17,529	19,636	2.0	5,176	26,722	4.1
Financial services	75,620	92,059	9.2	4,657	20,571	3.2
Gold and precious metals	19,320	19,266	1.9	21,334	28,987	4.5
Industrial products	123,401	368,339	36.8	49,351	135,254	20.8
Merchandising	10,273	14,570	1.5	11,543	39,900	6.1
Metals and minerals	24,248	40,943	4.1	31,479	43,202	6.6
Oil and gas	54,064	81,383	8.1	36,909	62,720	9.6
Paper and forest products	12,432	16,356	1.6	12,005	15,707	2.4
Pipelines	15,482	20,423	2.0	22,748	42,891	6.6
Real estate	846	1,967	0.2	2,667	7,873	1.2
Transportation and environmental services	17,924	13,704	1.4	14,027	16,602	2.6
Utilities	50,326	198,139	19.8	37,089	93,134	14.3
	\$ 464,534	\$ 1,001,034	100.0	\$ 279,726	\$ 651,008	100.0

The following is the fair value of the directly held Canadian public equities after taking into account the effect of the bank index swaps in the financial services sector:

	2000			1999		
	Fair Value	%	TSE 300 %	Fair Value	%	TSE 300 %
(thousands)						
Communications and media	\$ 80,221	7.6	7.8	\$ 73,078	9.2	8.1
Conglomerates	34,028	3.2	2.3	44,367	5.6	3.2
Consumer products	19,636	1.8	2.6	26,722	3.4	4.1
Financial services	151,384	14.3	13.3	162,640	20.5	21.2
Gold and precious metals	19,266	1.8	2.4	28,987	3.7	4.3
Industrial products	368,339	34.7	36.0	135,254	17.1	20.6
Merchandising	14,570	1.4	2.1	39,900	5.0	3.4
Metals and minerals	40,943	3.9	2.7	43,202	5.4	3.6
Oil and gas	81,383	7.7	7.6	62,720	7.9	8.9
Paper and forest products	16,356	1.5	2.0	15,707	2.0	2.3
Pipelines	20,423	1.9	1.5	42,891	5.4	3.1
Real estate	1,967	0.2	0.8	7,873	1.0	1.8
Transportation and environmental services	13,704	1.3	1.3	16,602	2.1	2.3
Utilities	198,139	18.7	17.6	93,134	11.7	13.1
	\$ 1,060,359	100.0	100.0	\$ 793,077	100.0	100.0

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(g) The Fund is managed by external managers with expertise in Canadian small and large stock market capitalization companies, United States, and global equity markets. The global equity market consists of non-North American investments in Europe, Australia, the Far East, Pacific Basin and Emerging Markets. The objective of the Fund is to provide investment returns higher than the total return of the applicable Morgan Stanley, Standard & Poor's and Toronto Stock Exchange indices over a four year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager style and market

diversification. The following is a summary of the Alberta Heritage Savings Trust Fund's investment in the External Managers Fund, by geographic region, as at March 31, 2000:

(h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange 300 Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

	2000		1999	
	Cost	Fair Value	Cost	Fair Value
	(thousands)			
Foreign Public Equity Pools:				
Multi Region	\$ 271,368	\$ 294,185	\$ 206,656	\$ 218,518
Europe	268,064	271,861	204,448	201,303
Pacific Basin	154,421	229,262	104,299	132,253
Emerging Markets	12,815	19,015	10,158	12,083
	706,668	814,323	525,561	564,157
United States	639,860	653,208	143,616	171,535
Canadian				
Large capitalized companies	126,095	152,743	114,621	116,432
Small capitalized companies	101,048	114,657	96,060	98,712
	227,143	267,400	210,681	215,144
Total - Alberta Heritage Savings Trust Fund	\$ 1,573,671	\$ 1,734,931	\$ 879,858	\$ 950,836
Total - External Managers Fund	\$ 5,350,708	\$ 6,687,889	\$ 3,537,968	\$ 4,338,781

The following is a summary of assets and liabilities of the External Managers Fund as at March 31, 2000:

	2000	1999
	(thousands)	
Cash and short term securities	\$ 135,273	\$ 109,079
Investments - Public equities	5,223,413	3,438,393
- Fixed-income securities	519	1,247
Accounts receivable and accrued investment income	57,514	27,890
Accounts payable	(66,011)	(38,641)
Total - External Managers Fund	\$ 5,350,708	\$ 3,537,968

FINANCIAL STATEMENTS

- (i) The Private Equity Pool (98) is managed with the objective of providing investment returns higher than attainable from the TSE 300 Index over a five to ten year period. The portfolio is comprised of equity investments in institutionally-sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Equity Pool is in the process of orderly liquidation.
- (j) The US Passive Equity Pooled Fund is a passively managed United States equity fund that provides a return equal to the total rate of the Standard & Poor's 500 United States Equity Index. Futures, swaps and other structured investments may be used to enhance performance of the fund. The Pool's investment in units at the Floating Rate Note Pool (see Schedule 1e) are used as the underlying securities to support the index swaps of the pool.
- (k) The EAFE (Europe, Australia and Far East) Structured Equity Pool is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley Capital International (MSCI) EAFE Index. The Pool provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The Pool's investment in units of the Floating Rate Not Pool (see Schedule 1e) are used as the underlying securities to support the index swaps of the pool.
- (l) The US Structured Equity Pool is in the process of orderly liquidation.
- (m) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over a four-year period or longer. Real estate is held through intermediate companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.
- (n) Deposits and Floating Rate Note Pool units are used as the underlying securities to support the bank index swaps issued by the Fund (See Note 4). If the effect of the swaps were reflected in this schedule, deposit and fixed income securities would be reduced by \$59,325,000 (1999: \$142,069,000) and Canadian equities increased by a corresponding amount. The resulting assets mix percentage would be 37.3% fixed income and 62.7% equities.
- (o) See Schedule 2, note (f).

FINANCIAL STATEMENTS

SCHEDULE OF TRANSITION PORTFOLIO INVESTMENTS

March 31, 2000 (thousands)

SCHEDULE 2

	2000		1999	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund (a)	\$ 84,333	\$ 84,333	\$ 45,010	\$ 45,010
Fixed income securities (b):				
Public, directly held				
Government of Canada, direct and guaranteed	1,521,641	1,494,506	2,189,957	2,222,780
Provincial:				
Alberta, direct and guaranteed	98,074	96,999	132,129	134,188
Other, direct and guaranteed	1,632,732	1,609,316	1,810,526	1,851,512
Municipal	70,765	70,783	71,888	75,165
Corporate	2,655,354	2,632,495	2,858,237	2,894,530
Private fixed-income securities				
Corporate	191,712	184,399	—	—
Total deposit and fixed income securities	6,254,611	6,172,831	7,107,747	7,223,185
Provincial corporation debentures (c):				
Agriculture Financial Services Corporation	284,702	292,181	401,212	426,483
Alberta Social Housing Corporation	192,852	263,914	230,558	326,252
Alberta Municipal Financing Corporation	35,000	35,989	140,000	149,317
Total Provincial corporation debentures	512,554	592,084	771,770	902,052
Total deposit, debentures and fixed income securities	6,767,165	\$ 6,764,915	7,879,517	\$8,125,237
Canadian equities:				
Public, directly held:				
TransCanada Pipelines Limited	53,966	\$ 35,304	53,966	\$ 63,812
NOVA Chemical Ltd.	—	—	11,714	16,077
Total Canadian equities	53,966	\$ 35,304	65,680	\$ 79,889
Loans:				
Ridley Grain Ltd. (d)	93,500		93,500	
Vencap Acquisition Corporation (e)	5,349		14,317	
Total loans	98,849		107,817	
Total investments(f)	\$ 6,919,980		\$ 8,053,014	

FINANCIAL STATEMENTS

NOTES TO SCHEDULE 2

(a) See Schedule 1, note (a).

(b) Fixed-income instruments are managed with the objective of providing a market rate of return higher than the market cost of the Canadian dollar portion of the Province's debt portfolio on an annual basis. Any excess return is expected to be achieved through management of portfolio duration as well as through issuer mix. As at March 31, 2000, fixed income securities held have an average effective market yield of 5.81% per annum for securities maturing within a year (1999: 4.91%), and 6.36% per annum for securities maturing between 1 and 35 years (1999: 5.30%). As at March 31, 2000, the securities have the following term structure based on principal amount:

under 1 year - 16% (1999: - 10%);
1 to 5 years - 64% (1999: - 56%);
5 to 10 years - 19% (1999: - 33%);
over 10 years - 1% (1999: - 1%).

As at March 31, 2000, securities with a fair value of \$492,316,000 (1999: \$857,691,000) were loaned to certain borrowers. The loans were secured by marketable securities with a fair value of \$522,480,000 (1999: \$939,235,000).

During the term of the loans, the Fund retains the right to receive income on the securities loaned, in addition to the fees earned.

(c) As at March 31, 2000, Provincial corporation debentures have an average effective yield of 8.02% per annum based on market value (1999: 7.52% per annum). The maturity profile based on expected repayments is as follows: under 1 year - \$262,167,000; 1 to 5 years - \$162,047,000; and over 5 years - \$88,340,000. Interest rates on Alberta Municipal Financing Corporation debentures are fixed to maturity and redemption is by a single payment of the full principal sum on maturity. In general the interest rates on the other provincial corporation debentures are fixed for a five year period only and repayment is by either semi-annual or annual installments of the principal sum over the life of the debenture. The Province, through the General Revenue Fund, borrows funds in the market and lends to the Agriculture Financial Services Corporation (AFSC) and lends or grants funds to Alberta Social Housing Corporation (ASHC). AFSC and ASHC will use the funds to repay the debentures held by the Transition Portfolio generally on the dates when the interest rates on these debentures are reset (every five years). During the year, debentures amounting to \$96,024,000 (1999: \$350,725,000) were redeemed prior to maturity.

The Fund's investment in provincial corporation debentures is summarized below:

	2000	1999
	(thousands)	
Balance at beginning of year	\$ 771,770	\$ 1,199,321
Disposals, repayments and redemptions:		
Agriculture Financial Services Corporation	(116,510)	(175,688)
Alberta Municipal Financing Corporation	(105,000)	—
Alberta Social Housing Corporation	(37,706)	(245,886)
Alberta Opportunity Company	—	(5,977)
Balance at end of year	\$ 512,554	\$ 771,770

FINANCIAL STATEMENTS

Fair values of Provincial corporation debentures are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. These include a liquidity premium to reflect the fact that if the debentures are sold, there will be a limited pool of these securities trading in the market; that the debentures would be new to the market and are not direct issues of the Province; a premium for the periodic interest reset feature where applicable; and a factor to reflect the blended payment structure of the debenture.

- (d) Under the terms of the loans to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. Interest due for the period August 1, 1998 to July 31, 1999 amounted to \$15,419,649 of which \$3,221,358 was received in November 1999 based on available cash flow. The interest shortfall totalling \$12,198,291 is not recognized in investment income. As at March 31, 2000, the principal, including accumulated unpaid interest repayable on or before July 31, 2015 amounted to \$55,125,291 (1999: \$42,927,000).

Grain throughput volumes are the main determinant of profitability of the grain terminal and its ability to service its loan from the Province, and therefore the value is sensitive to changes in grain throughput volumes. Grain throughputs are difficult to forecast because they are dependent in part upon port allocation decisions of the

Canadian Wheat Board and other factors such as crop size and composition. Accordingly, due to uncertainty of the grain throughput volumes, income from the participating bonds is recognized when received.

- (e) In October 1995, the Province agreed to terms of an Arrangement Agreement with Vencap Equities Alberta Ltd. (Vencap) and Vencap Acquisition Corporation, an indirect wholly owned subsidiary of Onex Corporation. Pursuant to this Agreement, the Province sold its \$199,989,000 Vencap loan and four million Vencap share options for cash of \$166 million and non-interest bearing payments totalling \$63,988,000 rescheduled on amended terms as follows:
- \$11,400,000 due on January 1, 2001, was repaid on October 1, 1999 for an amount equal to \$10,392,855 representing the discounted present value of the January 1, 2001 installment calculated in accordance with the agreement.
 - \$52,588,000 due on July 2046 bears no interest. The carrying value of the loan has been adjusted to an amount equal to the present value of anticipated loan repayments. The discount is amortized to investment income over the remaining term of the loan on a straight-line basis.
- (f) During the year, \$1,200,000,000 was transferred from the Transition Portfolio to the Endowment Portfolio in accordance with the investment provisions of the *Alberta Heritage Savings Trust Fund Act*.

List of Investments (unaudited)

The following unaudited schedules present the ten largest investments in the pools where the Endowment Portfolio's holdings were greater than 5%, the ten largest Canadian Public Equity issues that are directly held by the Endowment Portfolio, and the ten largest issues that are directly held in the Transition Portfolio. For a detailed listing of all investments please call (780) 427-4414.

The following schedules present this detail:

CANADIAN DOLLAR PUBLIC DEBT POOL

Schedule of Ten Largest Issues (based on market)

as at March 31, 2000 (unaudited)

SCHEDULE 1

Security Name	Security Type	Coupon (%)	Maturity	Par Value	Book Value	Market Value
CANADIAN FIXED INCOME						
Toronto Dominion Centre	Bond	6.30%	28-Feb-08	340,000,000	\$ 339,964,469	\$ 321,300,000
Bay Wellington Tower	Bond	6.40%	8-Apr-13	300,000,000	296,022,705	277,020,000
Pacific Centre	Bond	6.19%	31-Jan-03	267,000,000	266,125,625	258,215,700
Government of Canada	Bond	8.00%	1-Jun-27	133,096,000	172,340,675	173,943,162
Government of Canada	Bond	9.00%	1-Dec-04	122,763,000	137,325,769	137,020,695
Toronto Eaton Centre	Floating Rate Note	6.26%	31-Oct-29	134,113,969	134,113,969	135,227,116
Government of Canada	Bond	5.25%	1-Sep-03	135,000,000	132,737,541	131,534,550
Province of British Columbia	Bond	5.70%	18-Jun-29	132,565,000	123,018,184	121,299,626
Government of Canada	Bond	8.75%	1-Dec-05	103,323,000	116,539,183	116,353,064
Government of Canada	Bond	9.75%	1-Dec-21	77,238,000	108,508,098	112,165,024
Total Ten Largest Issues					\$ 1,826,696,218	\$ 1,784,078,937
Total Net Asset Value - Canadian Dollar Public Debt Pool					\$ 9,141,413,000	\$ 9,089,649,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holdings					\$ 1,848,383,000	\$ 1,772,350,000

CANADIAN PUBLIC EQUITIES, DIRECTLY HELD
Schedule of Ten Largest Issues (based on market)
as at March 31, 2000 (unaudited)

SCHEDULE 2

Security Name	Number of Shares	Book Value	Market Value
CANADIAN PUBLIC EQUITIES, directly held			
Nortel Networks	1,227,200	\$ 12,963,085	\$ 223,473,120
BCE Inc.	942,698	32,289,268	170,628,338
Seagram Company Ltd.	451,200	7,829,020	38,848,320
Alcan Aluminum Ltd.	468,178	7,181,933	22,730,042
Bombardier Inc.	622,500	1,056,071	22,690,125
JDS Uniphase	107,200	11,545,309	18,545,600
Canadian Pacific Ltd.	555,309	8,395,353	17,992,012
Toronto Dominion Bank	444,386	15,581,705	17,064,422
The Thompson Corporation	326,329	1,882,918	14,864,286
Talisman Energy Inc.	291,739	5,060,796	12,063,408
Total Ten Largest Issues		\$ 103,785,458	\$ 558,899,673
Total Canadian Public Equities, directly held		\$ 464,534,000	\$ 1,001,034,000

EXTERNAL MANAGERS FUND (GLOBAL AND UNITED STATES)
Schedule of Ten Largest Foreign Issues (based on market)
as at March 31, 2000 (unaudited)

SCHEDULE 3

Security Name	Country	Number of Shares	Book Value	Market Value
SSGA World Funds S&P500	United States	7,725,068	\$ 783,411,724	\$ 785,593,077
SSGA EAFE Index Com Trust Fund	United States	7,967,632	153,944,825	176,525,691
Vodafone Airtouch	United Kingdom	8,915,165	32,850,420	72,182,728
Nokia AB OY	Finland	200,057	18,988,854	61,513,863
Nippon Telegraph and Telephone	Japan	2,650	42,351,891	61,133,136
Cisco Systems	United States	508,968	7,836,186	57,174,973
Deutsche Telekom	Germany	427,563	34,212,487	49,969,658
BP Amoco	United Kingdom	3,508,462	40,855,794	46,505,815
Microsoft	United States	299,804	19,317,595	46,284,133
General Electric	United States	202,065	18,397,442	45,563,135
Total Ten Largest Foreign Issues			\$ 1,152,167,218	\$ 1,402,446,209
Total Net Asset Value - External Managers Fund - Foreign Issues			\$ 3,967,182,000	\$ 5,020,825,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holdings			\$ 1,346,528,000	\$ 1,467,531,000

EXTERNAL MANAGERS FUND - CANADIAN
Schedule of Ten Largest Canadian Issues (based on market)
as at March 31, 2000 (unaudited)

SCHEDULE 4

Security Name	Number of Shares	Book Value	Market Value
BCE	866,700	\$ 57,327,793	\$ 156,872,000
Northern Telecom	495,200	15,503,604	90,175,920
Toronto Dominion Bank	1,289,200	39,674,676	49,505,280
Bombardier	1,074,400	21,709,116	39,161,880
Royal Bank Canada	544,400	38,904,023	37,019,200
Alcan Aluminum	578,400	26,373,679	28,081,320
Seagram Ltd.	284,400	18,699,717	24,486,840
Anderson Exploration	1,089,400	19,428,089	22,877,400
Bank of Montreal	446,500	27,526,041	22,771,500
Bank of Nova Scotia	782,225	25,157,434	22,723,636
Total Ten Largest Canadian Issues		\$ 290,304,172	\$ 493,674,976
Total Net Asset Value - External Managers Fund - Canadian Issues		\$ 1,383,526,000	\$ 1,667,064,000
Total Net Asset Value - Alberta Heritage Savings Trust Fund - Endowment Portfolio Holdings		\$ 227,143,000	\$ 267,400,000

ALBERTA HERITAGE SAVINGS TRUST FUND - TRANSITION PORTFOLIO
Schedule of Ten Largest Canadian Issues (based on market)
as at March 31, 2000 (unaudited)

SCHEDULE 5

Security Name	Security Type	Coupon (%)	Maturity	Par Value	Book Value	Market Value
Government of Canada	Bond	5.00%	1-Sep-04	163,001,000	\$ 161,847,405	\$ 156,464,660
Province of British Columbia	Bond	10.75%	19-Feb-01	140,714,000	144,594,134	146,215,917
Province of Ontario	Coupon	—	05-Apr-01	150,000,000	142,581,218	141,090,000
Province of Ontario	Bond	8.00%	11-Mar-03	113,670,000	119,907,903	118,968,159
Hydro Quebec	Bond	11.75%	15-Jul-05	110,000,000	110,000,000	111,831,500
Government of Canada	Bond	6.00%	1-Sep-05	105,455,000	105,265,180	105,380,127
Province of Ontario	Bond	9.75%	29-Oct-01	96,613,000	101,680,653	101,530,602
Pacific Centre	Bond	6.30%	31-Jan-03	100,000,000	100,000,000	97,290,000
Government of Canada	Bond	11.75%	1-Feb-03	84,547,000	99,426,555	96,681,185
Province of British Columbia	Bond	9.00%	21-Jun-04	67,850,000	74,971,783	74,485,052
Total Ten Largest Issues					\$ 1,160,274,831	\$ 1,149,937,202
Total Net Asset Value - Transition Portfolio (a)					\$ 6,919,980,000	\$ 6,899,068,000

(a) Includes Policy Loans at cost.

Alberta Heritage Savings Trust Fund

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Ms. Debbie Carlson
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